

Rating Action: Moody's upgrades nine notes, affirms four and confirms one in three Bankinter Spanish SME ABS transactions

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Frankfurt am Main, September 18, 2014 -- Moody's Investors Service has today upgraded the ratings on nine notes, affirmed four and confirmed one in three Spanish asset-backed securities (ABS) transactions: BANKINTER 2 PYME, FTA; BANKINTER 3 FTPYME, FTA; and BANKINTER 4 FTPYME, FTA.

Today's upgrades reflect (1) the increase in the Spanish local-currency country ceiling to A1 and (2) the moderate increase of credit enhancement in the affected transactions over the last 12 months.

Today's rating action concludes the review of the notes placed on review on 17 March 2014, following the upgrade of the Spanish sovereign rating to Baa2 from Baa3 and the resulting increase in the local-currency country ceiling to A1 from A3 (http://www.moodys.com/viewresearchdoc.aspx?docid=PR_292078). The sovereign rating upgrade reflects improvements in institutional strength and reduced susceptibility to event risk associated with lower government liquidity and banking sector risks.

The three transactions are ABS backed by small to medium-sized enterprise (SME) loans, originated by Bankinter, S.A. (Baa3/P-3) to SMEs located in Spain.

Please refer to the end of the ratings rationale section for a list of affected ratings.

RATINGS RATIONALE

-- Reduced sovereign risk

Moody's upgraded the Spanish sovereign rating to Baa2 in February 2014, which resulted in an increase in the local-currency country ceiling to A1. The Spanish country ceiling, and therefore the maximum rating that Moody's will assign to a domestic Spanish issuer, including structured finance transactions backed by Spanish receivables, is A1 (sf).

The increase of credit enhancement, combined with stable performance and the reduction in sovereign risk, has prompted the upgrade of the notes.

-- Key collateral assumptions

Moody's has revised its volatility assumption in those transactions given the reduced country risk. Most assumptions remain unchanged given the stable performance of the transactions and the stable outlook for Spanish ABS (http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF373727). The default probability (DP) remains unchanged in BANKINTER 2 PYME, FTA and BANKINTER 3 FTPYME, FTA, but was lowered in BANKINTER 4 FTPYME, FTA from 18% to 16% on the current balance to reflect current pool characteristics and performance. In BANKINTER 2 PYME, FTA, Moody's increased the recovery assumption to 60% from 55% to reflect the higher-than-anticipated recoveries, but left the recovery assumptions unchanged in the two other deals as observed recoveries were in line with Moody's assumptions.

In BANKINTER 2 PYME, FTA, the unchanged DP on the current balance of 10.0% (corresponding to a DP on the original balance of 7.7%), together with the recovery rate of 60.0% (from 55.0% previously) and a volatility of 121.7%, corresponds to a portfolio credit enhancement of 23.0% lowered from 24% given updated pool characteristics and revised recovery rate assumption.

In BANKINTER 3 FTPYME, FTA, the unchanged DP on the current balance of 15.5% (corresponding to a DP on original balance of 15.5%), together with the unchanged recovery rate of 60.0% and a volatility of 86.3%, corresponds to an unchanged portfolio credit enhancement of 22.1%.

In BANKINTER 4 FPYME, FTA, the DP on the current balance of 16.0% (corresponding to a DP on the original balance of 15.4%), together with the recovery rate of 52.5% and a volatility of 71.4%, corresponds to an unchanged portfolio credit enhancement of 23.0%.

-- Exposure to Counterparties

Moody's rating analysis also took into consideration the exposure to key transaction counterparties. In those three transactions, Bankinter, S.A. (Baa3/P-3), Barclays Bank PLC (A2/P-1), and Banco Bilbao Vizcaya Argentaria, S.A. (Baa2/P-2), perform various roles, including the roles of servicer, account bank and swap provider respectively.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Global Approach to Rating SME Balance Sheet Securitizations", published in January 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include (1) further reduction in sovereign risk, (2) better-than-expected performance of the underlying collateral, (3) deleveraging of the capital structure and (4) improvements in the credit quality of the transaction counterparties.

Factors or circumstances that could lead to a downgrade of the ratings include (1) an increase in sovereign risk, (2) worse-than-expected performance of the underlying collateral, (3) deterioration in the notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

LIST OF AFFECTED RATINGS:

Issuer: BANKINTER 2 PYME, FTA

....EUR682M A2 Notes, Upgraded to A1 (sf); previously on Mar 17, 2014 A3 (sf) Placed Under Review for Possible Upgrade

....EUR16.2M B Notes, Upgraded to A1 (sf); previously on Mar 17, 2014 Baa3 (sf) Placed Under Review for Possible Upgrade

....EUR27.5M C Notes, Upgraded to Ba1 (sf); previously on Mar 17, 2014 B1 (sf) Placed Under Review for Possible Upgrade

....EUR10.7M D Notes, Upgraded to Caa1 (sf); previously on May 24, 2013 Affirmed Caa2 (sf)

Issuer: BANKINTER 3 FTPYME, FTA

....EUR288.9M A2 Notes, Upgraded to A2 (sf); previously on Mar 17, 2014 Baa2 (sf) Placed Under Review for Possible Upgrade

....EUR91.2M A3 (G) Notes, Upgraded to A2 (sf); previously on Mar 17, 2014 Baa2 (sf) Placed Under Review for Possible Upgrade

....EUR23.1M B Notes, Upgraded to Ba3 (sf); previously on Mar 17, 2014 B2 (sf) Placed Under Review for Possible Upgrade

....EUR6M C Notes, Confirmed at B3 (sf); previously on Mar 17, 2014 B3 (sf) Placed Under Review for Possible Upgrade

....EUR10.8M D Notes, Affirmed Caa2 (sf); previously on Jul 18, 2013 Affirmed Caa2 (sf)

Issuer: BANKINTER 4 FTPYME, FTA

....EUR160M Series A1 Notes, Affirmed A1 (sf); previously on Mar 17, 2014 Upgraded to A1 (sf)

....EUR174.4M Series A2(G) Notes, Affirmed A1 (sf); previously on Mar 17, 2014 Upgraded to A1 (sf)

....EUR19.6M Series A3 Notes, Affirmed A1 (sf); previously on Mar 17, 2014 Upgraded to A1 (sf)

....EUR30M Series B Notes, Upgraded to A1 (sf); previously on Mar 17, 2014 Ba1 (sf) Placed Under Review for Possible Upgrade

....EUR16M Series C Notes, Upgraded to Ba1 (sf); previously on Mar 17, 2014 B3 (sf) Placed Under Review for Possible Upgrade

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

As the section on loss and cash flow analysis describes, Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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Ludovic Thebault
Analyst
Structured Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Carole Gintz
Senior Vice President/Manager
Structured Finance Group

JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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